COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4934-01
Bill No.: SB 896
Subject: Judges; Highway Patrol; Retirement - State; Retirement Systems and Benefits - General; State Employees; Transportation Dept.
Type: Original
Date: February 17, 2010

Bill Summary: Requires the MOSERS and MPERS boards to create a defined contribution retirement plan for certain employees and judges.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	($20,416,666)	($25,200,000)	($26,600,000)
Total Estimated Net Effect on General Revenue Fund*	**($20,416,666)**	**($25,200,000)**	**($26,600,000)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
All Other Funds	($20,416,666)	($25,200,000)	($26,600,000)
Road Fund**	($33,214,553)	($33,919,927)	($27,543,429)
Total Estimated Net Effect on Other State Funds*	**($53,631,219)**	**($59,119,927)**	**($54,143,429)**

***According to MOSERS, this proposal would increase the annual employer contribution to MOSERS by approximately $41.6 million (2% of pay) for plan year ending 06/30/11. The increase in the annual employer contribution to the Judicial Retirement Plan by approximately $7.4 million (15.64% of pay) for plan year ending 06/30/11.**
****According to MPERS, this proposal would increase the annual required employer contribution to MPERS by approximately $39.6 to $39.8 million for plan year ending 06/30/11. MPERS is assuming an annual 3% and 6% employer contribution to the DC plan respectively.**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Retirement (JCPER)** indicates that this legislation does represent a “substantial proposed change” in future plan benefits as defined in Section 105.660(5). Therefore, an actuarial cost statement as defined in Section 105.665 must be provided prior to final action on this legislation by either legislative body or committee thereof.

Pursuant to Section 105.670, this actuarial cost statement must be filed with 1) the Chief Clerk of the Missouri House of Representatives, 2) the Secretary of the Senate and 3) the Joint Committee on Public Employee Retirement as public information for at least (5) legislative days before final passage of the bill.

An actuarial cost statement for this legislation has been filed with the Joint Committee on Public Employee Retirement.

Officials from the **Missouri State Employees’ Retirement System (MOSERS)** assume the proposal would, if enacted, establish a defined contribution plan for employees hired for the first time as a state employee or judge on or after January 1, 2011.

The proposal would allow the board of trustees of the Missouri State Employees’ Retirement System (MOSERS) and the Missouri Department of Transportation and Highway Patrol Employees’ Retirement System (MPERS) to establish defined contribution plans, intended to qualify as profit sharing plans under section 401(a) of the Internal Revenue Code, which would provide for an individual account for each participant with immediate vesting. As proposed, the annual contribution rate for each employee participating in the defined contribution plan would be paid by the employer and would be an amount determined annually by the general assembly under the appropriation process but in no event would the rate be less than one percent of the annual pay of each participating employee.

The proposal would allow each board to select third-party administrators to provide services as the board determines to be necessary for the proper administration of the plans. The legislation also contains language that establishes the legal standard of care applicable to the boards with regard to the administration of the defined contribution plans. Lastly, the legislation contains provisions that would allow members of the defined benefit plan to make a one-time irrevocable election to participate in the defined contribution plan. Members making such an election would not receive any benefit from the defined contribution plan for their state service prior to the election nor would they be allowed to accrue additional service credit in the defined benefit plan after the date of such election.

ASSUMPTION (continued)

Estimated Costs

The proposed changes would have no effect on the current MSEP and MSEP 2000 benefit obligation for the active members currently covered under MOSERS. However, the proposal would have a substantial and material fiscal impact on the amortization of the unfunded actuarial accrued liability (UAAL) of the defined benefit plan.

The attached cash flow analysis illustrates the total dollars that would flow into MOSERS, and the effect of the declining population in the defined benefit plan and the increasing population in the defined contribution plan, over time. This cash flow analysis assumes a 6% employer contribution rate for any state employee or judge hired for the first time on or after January 1, 2011. (For comparison purposes, the employer contribution rate for the College and University Retirement Plan (CURP), a defined contribution plan administered by MOSERS for certain eligible teaching personnel, is set by statute at 1% of payroll less than the normal cost of the defined benefit plan, which was recently certified at 7.77% for FY11.) The net impact shown reflects the change in the UAAL amortization to a 30-year closed period, level dollar amortization, the decrease in the defined benefit normal cost as the closed group shrinks, and the increase in contributions to the defined contribution for new hires on or after January 1, 2011 as the new open group expands.

As you can see in the analysis, the dollars initially required for the amortization of the UAAL are significant (a ten-year excerpt for the MSEP and Judicial Plan appears below for ease of reference). The actuary estimated that $41.6 million (for the MSEP) and $7.4 million (for the Judicial Plan) would be due in the first year after the defined contribution plan is enacted.

These amounts increase during the ensuing four years due to investment losses incurred in 2008 that are recognized and spread over a five-year period. Thereafter, you will see those amounts declining. (In part, this assumes there will not be sufficient offsetting future gains to mitigate the earlier loss which may or may not be the case.)

ASSUMPTION (continued)

10-Year Excerpt from 50-Year Cash Flow – MSEP

Years Out	Year Ending 6/30	Total Payroll ($Millions)	Current DB Contribution ($Millions)	Total DB & DC Contribution ($Millions)	Change ($Millions)	Change (% of Total Payroll)
1	2011	$2,082.5	$287.5	$329.1	$41.6	2.00%
2	2012	2,165.8	321.6	365.5	43.9	2.03
3	2013	2,252.4	358.8	406.4	47.6	2.11
4	2014	2,342.5	406.1	462.1	56.0	2.39
5	2015	2,436.2	448.6	508.5	59.9	2.46
6	2016	2,533.7	463.5	511.8	48.3	1.91
7	2017	2,635.0	477.0	515.4	38.4	1.46
8	2018	2,740.4	490.9	519.3	28.5	1.04
9	2019	2,850.0	505.1	523.6	18.5	0.65
10	2020	2,964.0	519.9	528.2	8.3	0.28

10-Year Excerpt from 50-Year Cash Flow – Judicial Plan

Years Out	Year Ending 6/30	Total Payroll ($Millions)	Current DB Contribution ($Millions)	Total DB & DC Contribution ($Millions)	Change ($Millions)	Change (% of Total Payroll)
1	2011	$47.3	$28.4	$35.8	$7.4	15.64%
2	2012	49.2	29.4	35.9	6.5	13.20
3	2013	51.2	30.4	36.0	5.6	10.98
4	2014	53.2	31.6	36.4	4.8	9.01
5	2015	55.4	32.7	36.6	3.9	7.05
6	2016	57.6	33.6	36.4	2.8	4.94
7	2017	59.9	34.5	36.2	1.7	2.85
8	2018	62.3	35.4	35.9	0.6	0.90
9	2019	64.8	36.3	35.7	(0.6)	-0.90
10	2020	67.4	37.3	35.5	(1.7)	-2.60

ASSUMPTION (continued)

Some additional points worth noting:

The state would begin recognizing savings in year 11 for the general plan; year 9 for the judicial plan.
The break even point for recouping dollars paid out for the UAAL would occur in year 19 for the general plan; year 16 for the judicial plan.
Significant savings would be recognized at the close of the 30-year amortization of the UAAL in the defined benefit plan.

As illustrated in the analysis, the closing of the defined benefit plan to new hires would likely result in very different net cash flows for the system. Close attention would need to be paid to any emerging negative net cash flows to maintain the integrity of the fund. Over time, as the remaining active members retire, a larger portion of the assets would need to be available for the payment of benefits – this could potentially limit the system's ability to sustain meeting the investment return assumption of 8.5% that is presently in place.

Officials from the **Office of Administration, Division of Budget and Planning** assume this proposal has no impact on their agency and defers to MOSERS for more detailed estimates of this section and other provisions of the proposal.

Section 104.1305 of this proposal could have statewide short-term costs or savings, which are dependent upon the contribution rate appropriated by the general assembly and how that rate compares with the current contribution rate for active employees. The new, defined contribution plan for state employees requires at least one percent of annual pay to be appropriated for the plan.

Officials from the **Missouri Department of Conservation (MDC)** assume the amount of impact of this proposal on MDC funds is unclear; therefore, MDC will defer to MOSERS for the estimated amount of impact.

Officials from the **Department of Transportation** will defer to MPERS for the estimated amount of impact of this proposal.

Officials from the **Department of Labor and Industrial Relations (DOL)** assume this proposal amends Chapter 104 to authorize a Board to create a new retirement plan for the Highway Patrol, judges and certain other state employees. They would create a defined contribution plan, which differs from the current state retirement plans that are defined benefit plans. This will likely have a fiscal impact on the DOL; however it is not possible to determine the exact cost because the benefit plan is not defined in the bill. The fiscal impact would be unknown over $100,000.

ASSUMPTION (continued)

Officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assume this proposed legislation requires the MoDOT and Patrol Employees' Retirement System (MPERS) and the Missouri State Employees' Retirement System (MOSERS) boards to create a define contribution retirement plan for state employees hired for the first time on or after January 1, 2011.

This proposal instructs the Board of Trustees of each system to establish a defined contribution plan, intended to qualify as a profit sharing plan under Section 401(a) of the Internal Revenue Code, for eligible employees that will provide for an individual account for each participant and for benefits based solely on the amount allocated to the participant's account for immediate vesting.

The bill also instructs the Board of Trustees of each system to:

Select a third-party administrator to provide such services as the board determines to be necessary for the proper administration of the defined contribution plan.

Hold all assets and income of the defined contribution plan in trust for the exclusive benefit of participants and their beneficiaries.

Select the investments of such trust, and permit the participants in the defined contribution plan to direct investment of their individual accounts among investment options, if deemed appropriate by the board.

As written, the bill does not specify the contribution rate to be paid by the employee. However, it does specify that the annual contribution rate for each employee participating in the defined contribution plan shall be paid by the employer and shall be equal to the contribution rate determined by the general assembly under the appropriation process, but in no event shall the rate be less than 1% of the annual pay for each participating employee.

Current members of the Closed Plan and the Year 2000 Plan will have an opportunity to make a one-time irrevocable election to participate in the defined contribution plan established by this bill. Members who elect to participate in the defined contribution plan will not accrue any additional service credit or compensation in their applicable prior plan after the date of election.

Fiscal Impact:

The proposed changes have no effect on the MPERS benefit obligations. Benefits payable under the Closed Plan and the Year 2000 Plan for members hired prior to January 1, 2011 are not affected by the proposal. However, MPERS currently uses a level percent of payroll

ASSUMPTION (continued)

amortization method to fund the Unfunded Actuarial Accrued Liability (UAAL). This method assumes that the payroll will continue to grow at the rate of the wage inflation assumption (3.75% annually). When a plan is closed to new hires, this method is no longer permitted under accounting standards. A change to level dollar amortization is a common solution to this issue. Although this change does not affect the computation of normal costs, accrued liabilities or UAAL, it will increase the amount of the computed contribution that funds the UAAL. The increase due to this change is detailed below:

	Non-Uniformed	Uniformed	Total
Current FY2011 Employer Contribution Rate			
Normal Cost + Expenses + Disability Insurance	12.51%	14.30%	12.84%
UAAL	26.95%	35.23%	28.43%
Total Illustrative $	**39.46%**	**49.53%**	**41.27%**
Proposed FY2011 Employer Contribution Rate			
Normal Cost + Expenses + Disability Insurance	12.51%	14.30%	12.84%
UAAL	36.78%	49.38%	39.07%
Total	**49.29%**	**63.68%**	**51.91%**
Increase			
Normal Cost + Expenses + Disability Insurance	0.00%	0.00%	0.00%
UAAL	9.83%	14.15%	10.64%
Total	**9.83%**	**14.15%**	**10.64%**

Simplified Projections of Possible Total Contributions (6%)

Non-Uniformed

				Proposed Contribution Rate			Dollar Contributions		
Fiscal Year	**Val Payroll Projected**	**DB Payroll**	**DC Payroll**	**Current**	**DB**	**DC**	**Current**	**Proposed**	**Difference**
2009	$310,049,427	$310,049,427	$0						
2010	$321,676,281	$321,676,281	$0						
2011	$333,739,142	$326,485,146	$7,253,996	39.46%	49.29%	6.00%	$131,693,465	$161,359,768	$29,666,303
2012	$346,254,360	$321,764,994	$24,489,366	41.29%	51.54%	6.00%	$142,968,425	$167,307,040	$24,338,615
2013	$359,238,899	$316,865,915	$42,372,984	45.00%	56.10%	6.00%	$161,657,505	$180,304,158	$18,646,653
2014	$372,710,358	$311,272,085	$61,438,273	45.00%	56.10%	6.00%	$167,719,661	$178,309,936	$10,590,275
2015	$386,686,996	$304,484,027	$82,202,969	45.00%	56.10%	6.00%	$174,009,148	$175,747,717	$1,738,569
2016	$401,187,758	$296,950,834	$104,236,924	45.00%	56.10%	6.00%	$180,534,491	$172,843,633	($7,690,858)
2017	$416,232,299	$289,141,822	$127,090,477	45.00%	56.10%	6.00%	$187,304,535	$169,833,991	($17,470,544)
2018	$431,841,010	$280,727,462	$151,113,548	45.00%	56.10%	6.00%	$194,328,455	$166,554,919	($27,773,536)
2019	$448,035,048	$272,071,374	$175,963,674	45.00%	56.10%	6.00%	$201,615,772	$163,189,861	($38,425,911)
2020	$464,836,362	$263,166,881	$201,669,481	45.00%	56.10%	6.00%	$209,176,363	$159,736,789	($49,439,574)

ASSUMPTION (continued)

Uniform

Fiscal Year	Val Payroll Projected	DB Payroll	DC Payroll	Proposed Contribution Rate: Current	DB	DC	Dollar Contributions: Current	Proposed	Difference
2009	$67,602,818	$67,602,818	$0						
2010	$70,137,924	$70,137,924	$0						
2011	$72,768,096	$72,585,148	$182,948	49.53%	63.68%	6.00%	$36,042,038	$46,233,199	$10,191,161
2012	$75,496,900	$72,938,711	$2,558,189	52.30%	67.06%	6.00%	$39,484,879	$49,066,191	$9,581,312
2013	$78,328,034	$72,973,528	$5,354,506	57.90%	73.90%	6.00%	$45,351,932	$54,248,708	$8,896,776
2014	$81,265,335	$73,202,633	$8,062,702	57.90%	73.90%	6.00%	$47,052,629	$54,580,508	$7,527,879
2015	$84,312,785	$73,293,036	$11,019,749	57.90%	73.90%	6.00%	$48,817,103	$54,824,739	$6,007,636
2016	$87,474,514	$73,280,101	$14,194,413	57.90%	73.90%	6.00%	$50,647,744	$55,005,659	$4,357,915
2017	$90,754,808	$73,002,069	$17,752,739	57.90%	73.90%	6.00%	$52,547,034	$55,013,693	$2,466,659
2018	$94,158,113	$72,631,379	$21,526,734	57.90%	73.90%	6.00%	$54,517,547	$54,966,193	$448,646
2019	$97,689,042	$71,951,691	$25,737,351	57.90%	73.90%	6.00%	$56,561,955	$54,716,541	($1,845,414)
2020	$101,352,381	$70,493,218	$30,859,163	57.90%	73.90%	6.00%	$58,683,029	$53,946,038	($4,736,991)

Total

Fiscal Year	Val Payroll Projected	DB Payroll	DC Payroll	Proposed Contribution Rate: Current	DB	DC	Dollar Contributions: Current	Proposed	Difference
2009	$377,652,245	$377,652,245	$0						
2010	$391,814,205	$391,814,205	$0						
2011	$406,507,238	$399,070,294	$7,436,944	41.27%	51.91%	6.00%	$167,735,503	$207,592,967	$39,857,464
2012	$421,751,260	$394,703,705	$27,047,555	43.26%	54.41%	6.00%	$182,453,304	$216,373,231	$33,919,927
2013	$437,566,933	$389,839,444	$47,727,489	47.31%	59.43%	6.00%	$207,009,437	$234,552,866	$27,543,429
2014	$453,975,693	$384,474,718	$69,500,975	47.31%	59.49%	6.00%	$214,772,290	$232,890,444	$18,118,154
2015	$470,999,781	$377,777,063	$93,222,718	47.31%	59.55%	6.00%	$222,826,251	$230,572,456	$7,746,205
2016	$488,662,272	$370,230,934	$118,431,338	47.31%	59.62%	6.00%	$231,182,235	$227,849,292	($3,332,943)
2017	$506,987,107	$362,143,891	$144,843,216	47.31%	59.69%	6.00%	$239,851,569	$224,847,684	($15,003,885)
2018	$525,999,123	$353,358,842	$172,640,281	47.31%	59.76%	6.00%	$248,846,002	$221,521,112	($27,324,890)
2019	$545,724,090	$344,023,065	$201,701,025	47.31%	59.82%	6.00%	$258,177,727	$217,906,402	($40,271,325)
2020	$566,188,743	$333,660,098	$232,528,645	47.31%	59.86%	6.00%	$267,859,392	$213,682,827	($54,176,565)

This proposal could reduce total state revenue.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
Cost - Office of Administration Increase in annual employer contribution	($20,416,666)	($25,200,000)	($26,600,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE*	**($20,416,666)**	**($25,200,000)**	**($26,600,000)**
ALL OTHER FUNDS			
Cost - Office of Administration Increase in annual employer contribution	($20,416,666)	($25,200,000)	($26,600,000)
Cost - Department of Transportation & Highway Patrol** Increase in annual employer contribution	($33,214,553)	($33,919,927)	($27,543,429)
ESTIMATED NET EFFECT ON ALL OTHER STATE FUNDS*	**($53,631,219)**	**($59,119,927)**	**($541,434,290)**

***According to MOSERS, this proposal would increase the annual employer contribution to MOSERS by approximately $41.6 million (2% of pay) for plan year ending 06/30/11. The increase in the annual employer contribution to the Judicial Retirement Plan by approximately $7.4 million (15.64% of pay) for plan year ending 06/30/11.**
****According to MPERS, this proposal would increase the annual required employer contribution to MPERS by approximately $39.6 to $39.8 million for plan year ending 06/30/11. MPERS is assuming an annual 3% and 6% employer contribution to the DC plan respectively.**

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This act requires the boards of the Missouri State Employees' Retirement System (MOSERS) and the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) to each create a defined contribution retirement plan. These plans are for any person who is hired for the first time as a state employee or serves as a judge for the first time on or after January 1, 2011. This retirement plan would provide individual accounts for each employee. The amount of benefits provided to each employee are based solely on the amount allocated to the employee's account, and these benefits vest immediately. The MOSERS and MPERS boards are also required to select the outside administrators to administer these retirement plans. If the boards consider it appropriate, the employees in the defined contribution plan may direct investment of their individual accounts among investment options selected by each board.

Each state department is required to pay an annual contribution rate for each employee in the defined contribution plan. This contribution rate is determined by the general assembly in the appropriations process, but may not be less than one percent of the annual pay for each employee that participates in the plan.

The MOSERS and MPERS boards and their employees will not be liable for investment decisions made by individual employees, as long as each board selects and monitors the investment providers, education, advice, and any default investment option, as a prudent person would. The MOSERS and MPERS systems are immune from lawsuits associated with the administration of the defined contribution plan.

State employees who are members of the closed plan or year 2000 plan have the option to decide to participate in the new defined contribution plan. The employees who decide to participate in the defined contribution plan will not receive any additional credit in their current retirement plan after they decide to participate in the defined contribution plan.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Missouri State Employees' Retirement System
Missouri Department of Conservation
Department of Labor and Industrial Relations
Office of Administration -
  Division of Budget & Planning
Department of Transportation
MoDOT and Patrol Employees' Retirement System

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